



FILED

7-14-16
10:36 AM

JHM/avs 7/14/2016

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking on the Commission's Own Motion to Update and Revise the Uniform Systems of Accounts for the Class A Water Utilities and for the Class B, C and D Water Utilities.

Rulemaking 15-11-014
(Filed November 19, 2015)

**ADMINISTRATIVE LAW JUDGE'S RULING
INTRODUCING A DRAFT WORKSHOP REPORT
AND INVITING COMMENTS**

This ruling circulates a proposed summary of the June 20, 2016 workshop on accounting for recycled water and invites parties' comments on the workshop report. Parties are also invited to comment on whether the Class A water utilities should be required to separately record recycled water activities in their accounting records.

IT IS RULED that:

1. Parties are invited to file comments on the attached workshop report.
2. Parties are also invited to file comments on whether Class A water utilities should be required to separately record recycled water activities in their accounting records. Comments shall include reasons for requiring or not requiring separate accounting. Comments in favor shall also identify how the recycled water activities should be recorded in accounting records, including the rationale behind such accounting treatment.

3. Comments shall be filed no later than July 29, 2016 and reply comments shall be filed no later than August 12, 2016.

Dated July 14, 2016, at San Francisco, California.

/s/ JOHN A. MIKITA
John A. MiKita
Administrative Law Judge

ATTACHMENT A

Before the California Public Utilities Commission
Rulemaking 15-11-014

CLASS A WATER UTILITIES ACCOUNTING FOR RECYCLED WATER WORKSHOP REPORT

July 6, 2016

Prepared by: Utility, Audit, Finance and Compliance Branch (UAFCB)

CLASS A WATER UTILITIES ACCOUNTING FOR RECYCLED WATER WORKSHOP REPORT

1. Background and Purpose of Workshop

On November 15, 2015, the Commission issued a rulemaking proceeding on its own motion to update and revise the Uniform Systems of Accounts (USOA) for the Class A water utilities and the Class B, C and D water utilities. Included in the proposed changes were separate accounts for Class A water utilities' recycled water activities.

In its April 8, 2016 comments to the rulemaking, California Water Association (CWA) opposed separate accounts for recycled water activities and requested that workshops be held to fully vet the issue. An accounting for recycled water workshop was held on June 20, 2016 in response to CWA's request, pursuant to an Administrative Law Judge's May 13, 2016 ruling.

The purpose of the workshop was to address whether specific accounts for recycled water activities should be included in an updated USOA for Class A water utilities.

2. Workshop Participants

Representatives from CWA, five of the nine Class A water utilities, Office of Ratepayer Advocates, and the Utility, Audit, Finance & Compliance Branch attended the workshop. Class A water utilities represented at the workshop were: (1) California Water Service Company, (2) Golden State Water Company, (3) San Gabriel Valley Water Company, (4) San Jose Water Company, and (5) Suburban Water Systems.

3. Power Point Presentation

CWA provided a power presentation on the recycled water activities of six¹ Class A water utilities. (See Attachment B.)

Landscape irrigation, injection at seawater intrusion barriers, and industrial operations are the recycled water activities being undertaken by the Class A water utilities, as identified in the presentation. Infrastructure investments needed to provide these recycled water activities are

¹ San Jose Water Company, Suburban Water Company, Golden State Water Company, San Gabriel Valley Water Company, California Water Service Company and Liberty Utilities – Park Water Company.

transmission mains, distribution mains, booster pumps and meters. The operating cost categories needed to provide these recycled water activities are purchased water, purchased power, meter reading, maintenance, billing, administrative, and retrofitting.

Recycled water infrastructure investments, operating costs and revenues are recorded and commingled in the same USOA accounts that the Class A water utilities potable activities are recorded in their accounting records. In other words, the accounting records do not distinguish infrastructure investments, operating costs and revenues between recycled water and potable water activities.

In Class A water utilities general rate case filings, forecasted costs, sales and revenues for recycled water are used to determine revenue requirements. Pursuant to Ordering Paragraph 11 of Decision 14-08-058, ratemaking for recycled water should be determined on a case-by-case basis.

CWA's power point presentation concluded that separate accounting is not necessary to meet reporting and ratemaking requirements.

4. Discussions

The power point presentation led to the primary discussion topics of whether there is a need to separately account for recycled water activities on the Class A water utilities accounting records. A secondary discussion issue was what would be needed to implement separate accounting, if separate accounts are adopted.

4.1. Separate Accounting

Non-utility representatives questioned the utility's ability to identify recycled water investments and costs from their accounting records in order to assess the reasonableness of recycled water rates if separate accounting for recycled water is not adopted.

Class A water utility representatives explained that recycled water is another source of water supply available for all of its customer classes. Investments and costs are not separated by customer classes for accounting or ratemaking purposes. Therefore, the Class A water utilities represent that it is not necessary to require separate accounting for recycled water activities. In addition, Section 13580.7(e) of the California Water Code

provides for recycled water rates to be comparable to or less than the retail water supplier's rate for potable water.

Water Code Section 13580.7(e) states "To the extent feasible, the rate for recycled water shall be comparable to, or less than, the retail water supplier's rate for potable water. If recycled water service cannot be provided at a rate comparable to, or less than, the rate for potable water, the retail water supplier is not required to provide the recycled water service, unless the customer agrees to pay a rate that reimburses the retail water supplier for the costs described in subdivision (c)." Subdivision (c) provides for a contract between the retail water supplier and customer if no rate is in effect for recycled water service or the rate for providing the recycled water would be higher than the rate for potable water.

4.2. Cost and Time to Implement

An issue of cost and time needed to implement separate accounting for recycled water was raised in response to CWA's April 8, 2016, comments which stated that adding new accounts and subaccounts may require utilities to remap their financial systems and general ledgers to the new account numbers in the USOA. As a result, the utilities may have to implement further changes to their ratemaking systems, workpapers and general reports which could possibly result in significant expenses for the Class A water utilities.

The workshop participants were unable to provide any estimate of costs or time needed to implement separate accounting for recycled water activities. The workshop participants were also unable to identify the costs and time Class A water utilities took to implement approximately seven contamination subaccounts recently ordered by the Commission in D.10-10-018.

5. Conclusions

The workshop did not result in a consensus of whether the Class A water utilities should be required to separately record recycled water activities in their accounting records. However, it did provide a more complete understanding of the types and process of recycled activities being and expected to being undertaken by the Class A water utilities, how associated utility plant and expenses are recorded on the accounting records and how those activities are presented in general rate proceedings. The information

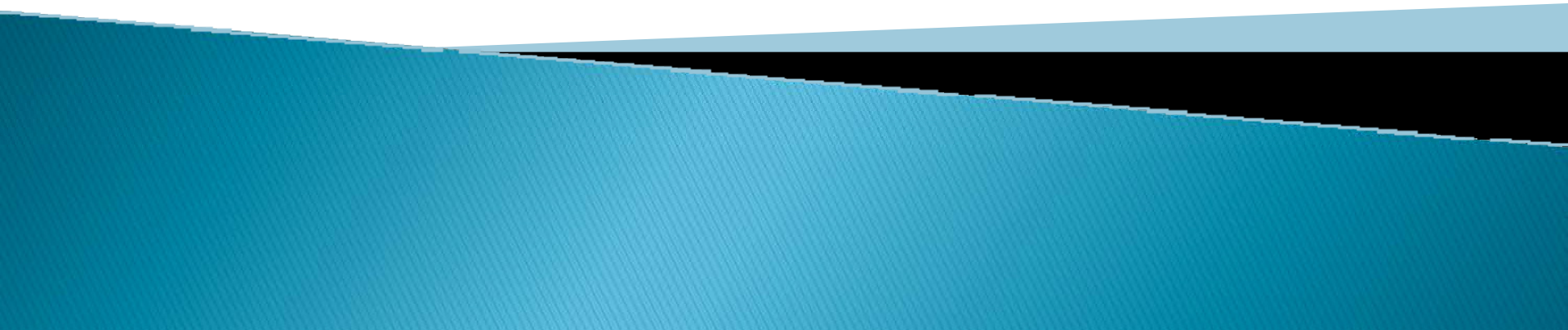
from this workshop will be helpful for the Commission to make a determination on how recycled water activities should be recorded in the USOA for Class A water utilities.

(END OF ATTACHMENT A)

ATTACHMENT B

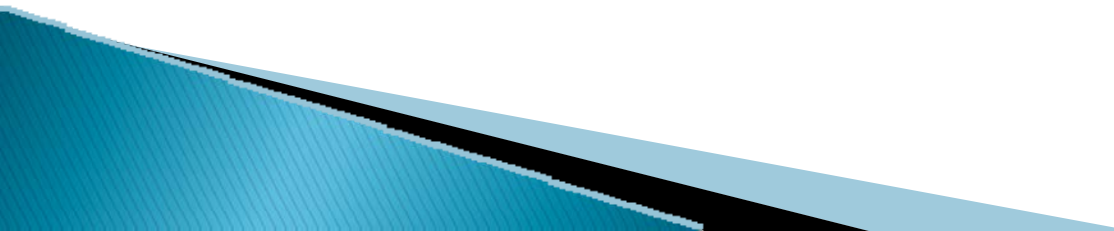
ACCOUNTING FOR RECYCLED WATER

California Water Association
R.15-11-014 Workshop
June 20, 2016

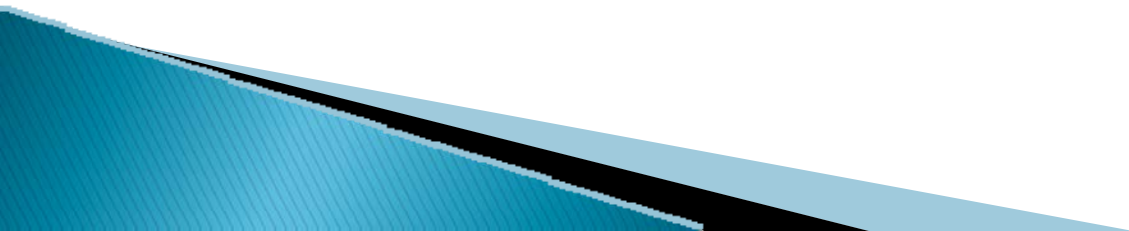


Sample Recycled Water Projects

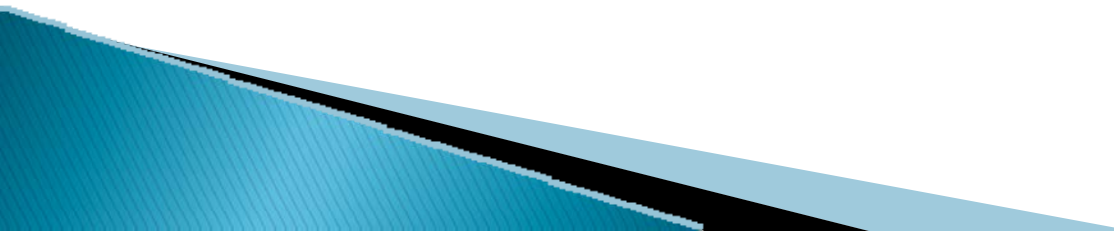
San Jose Water Company

- San Jose Water Company distributes recycled water received from the South Bay Water Recycling (SBWR) to customers connected to recycled water mains.
 - Recycled water is produced by the San Jose/Santa Clara Regional Wastewater Facility. SBWR manages the distribution of the recycled water produced. SBWR is the largest recycled water program in northern
- 

California and provides approximately 75% of the recycled water used in Santa Clara County.

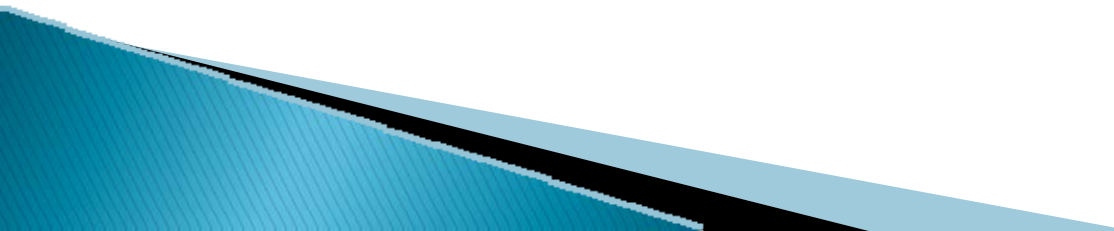


Suburban Water Systems

- Suburban Water Systems partnered with Upper San Gabriel Valley Municipal Water District (USGVMWD), City of Industry, and Los Angeles County Sanitation District (LCSD).
 - LCSD treats wastewater at its reclamation plant and City of Industry pumps it into east to their reservoirs. From these tanks a USGVMWD pump station lifts water into a recycled water transmission and distribution system that supplies Suburban's large irrigation customers.
 - USGVWMD owns the recycled water system facilities up to but not including the meters. Suburban owns the meters and the customers are Suburban's customers. Suburban purchases recycled water from USGVWMD. Suburban
- 

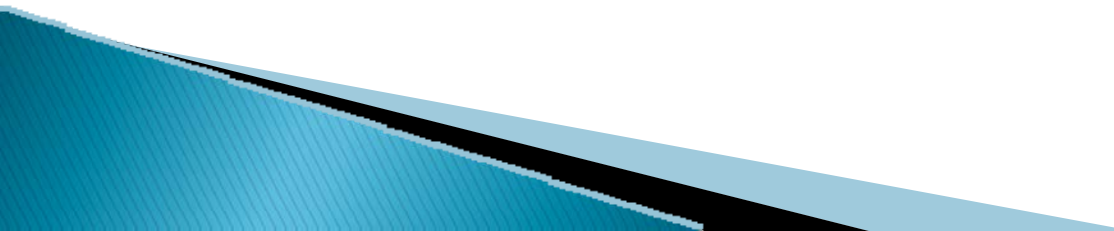
performs normal operations under contract with
USGVWMD.

Golden State Water Company

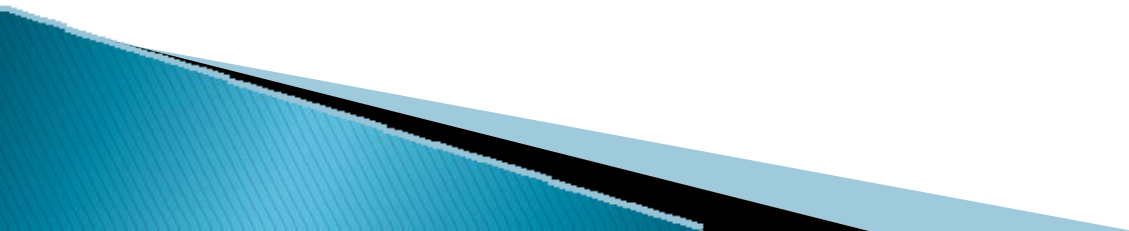
- Golden State Water Company serves recycled water to customers in the Central District Customer Service Areas (CSA), Southwest CSA, and San Gabriel CSA.
 - Golden State purchases water from the Central Basin Municipal Water District, West Basin Municipal Water District, and Upper San Gabriel Valley Municipal Water District.
- 

- Golden State does not own the infrastructure that is used to convey water to customers, but does own the meters.

San Gabriel Valley Water Company

- Since 1994, San Gabriel Valley Water Company has been providing recycled water service to customers in its Los Angeles County division for landscape irrigation. It is the largest retail supplier of recycled water in the San Gabriel Valley, with recycled water making up over 6% of total water deliveries in the L.A. County division.
 - San Gabriel purchases recycled water from the County Sanitation Districts for delivery to a wholesale nursery, from the Central Basin MWD for delivery to recycled water customers in the Central Basin, and from the Upper San Gabriel Valley Municipal Water District for delivery to recycled water customers in the Main San Gabriel Basin.
 - In 2016, San Gabriel will begin delivering recycled water to customers in its Fontana Water Company division. San Gabriel will purchase the recycled water from the Inland Empire Utilities Agency.
 - San Gabriel owns the recycled water distribution system in its Fontana Water Company division, which was paid for entirely with facilities fees, meaning that these plant facilities are not in rate base and San Gabriel's
- 

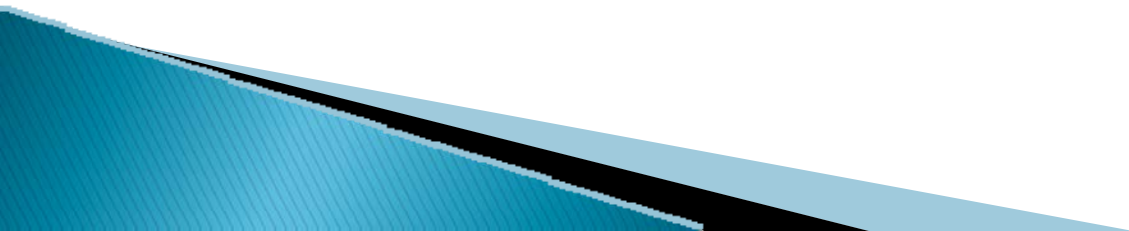
customers will not have to pay for its construction through their water rates



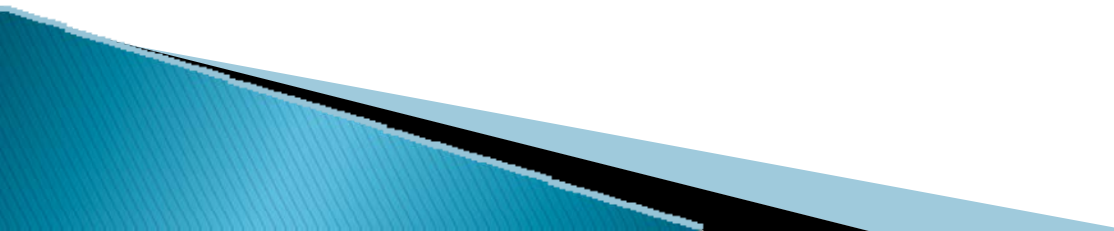
California Water Service Company

- West Basin Municipal Water District (WBMWD) is the recycled water distributor to Cal Water's Dominguez District and Hermosa-Redondo Districts. WBMWD receives secondary effluent from the City of Los Angeles' Hyperion Wastewater Treatment Plant, which is further treated at the Edward C. Little Water Recycling Facility before delivery to Cal Water.
- The Triunfo Sanitation District and Calleguas Municipal Water District provide recycled water to Cal Water for its Westlake District.

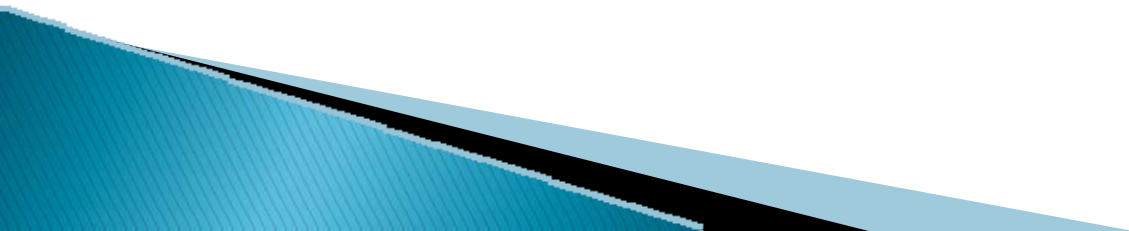
- Recycled water is currently being used for injection at the seawater intrusion barriers, for industrial operations and for landscape irrigation.



Liberty Utilities – Park Water

- Liberty provides recycled water to its customers using supply from Central Basin Municipal Water District's through CBMWD's Century Water Recycling Project.
 - In 2015, this recycled water was 2 percent of Liberty's total water supply.
- 

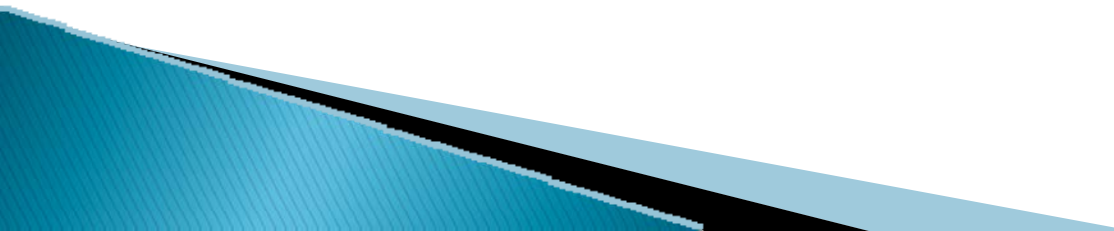
- Liberty is working with CBMWD to develop new customers for irrigation purposes.



Examples of Recycled Water Plant

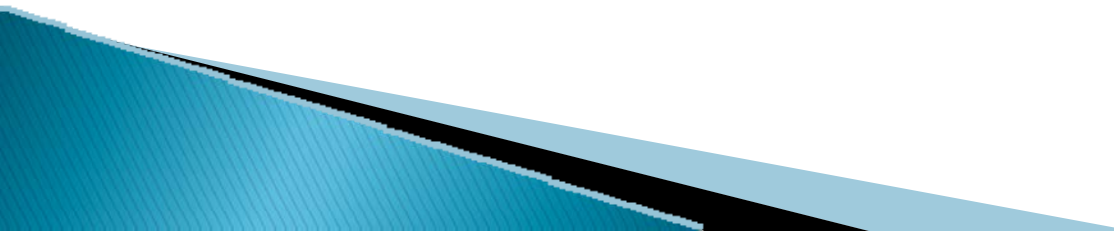
- Transmission and distribution mains
- Booster pumps
- Meters

Examples of Recycled Expenses

- Purchased water
 - Power
 - Meter reading
 - Maintenance
 - Billing
 - Administrative
- 

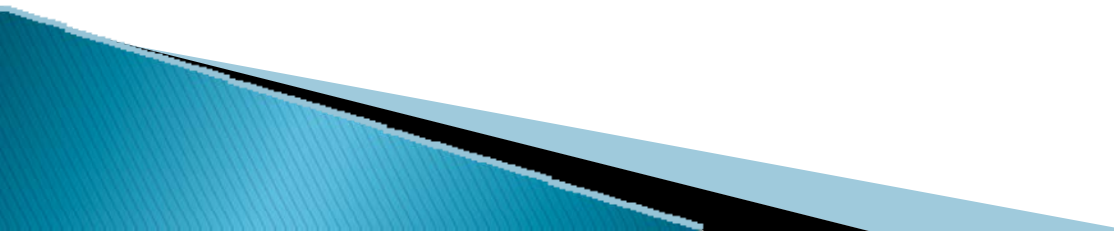
- Retrofit

Accounting

- The plant used for recycled water, which consists of meters and in some instances, recycled water mains and appurtenances, is accounted for using the Commission's Uniform System of Accounts (USOA) guidelines for utility plant.
 - Expenses related to recycled water are accounted for following the USOA guidelines for operating expenses.
- 

- Revenues from the sale of recycled water are accounted for following the USOA guidelines for operating revenue.

Ratemaking and Reporting

- D.14-04-058 states that ratemaking for recycled water should be determined on a case-by-case basis.
 - Rates for recycled water are set forth in company tariffs.
 - Forecasts of costs, sales and revenues for recycled water are included in general rate case filings and used to determine revenue requirements.
- 

- Separate accounting is not necessary to meet reporting and ratemaking requirements.

(END OF ATTACHMENT B)